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The effect of entrepreneurial orientation variables on business performance in the SME industry context

Orientation
variables on
business
performance

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Abstract

Purpose – The purpose of this study is to provide new practical and theoretical insights into how small and medium-sized enterprises (SMEs) adjust and further develop business competencies, innovations and performance by using market orientation, learning orientation behaviors and entrepreneurial orientation.

Design/methodology/approach – The data was collected from manufacturing SMEs of textile products that had a number of employees between 5 and 99 people in the province of Bali, Indonesia, in 2016. Bali province was chosen as a research location because Bali was one of the tourism centers in Indonesia and even in the world was considered suitable for this research. It was because it had textile product industries that contributed in the fulfillment of the needs of tourism clothing, national economy, the fulfillment of fashion needs and foreign exchange contributors from non-oil exports (Industry and Trade Service of Bali).

Findings – Based on the results of descriptive and inferential analysis that has been conducted, it can be concluded that the answer to the problems and objectives that have been determined is market orientation, learning orientation and entrepreneurial orientation affect business performance through knowledge competence and innovation directly and its influence is significantly positive. But market orientation, learning orientation and entrepreneurial orientation do not directly have a significant positive effect on innovation through knowledge competence. Market orientation, learning orientation and entrepreneurship orientation indirectly have a significant positive effect on business performance through knowledge and innovation competencies.

Originality/value – The lack of studies in the existing literature underscores the potential contribution of this subsequent study. The novelty of the research is first to develop a concept of learning orientation that is linked to competence of knowledge, which this link has not been much expressed in the context of industry SMEs; second, to build the concept of innovation development of small and medium-sized industry of textile industry based on market orientation by strengthening the mediation role of competence of knowledge.

Keywords Performance, Innovation, Learning orientation, Market orientation, Competence of knowledge, Entrepreneurial orientation

Paper type Research paper



1. Introduction

In Indonesia, small and medium-sized enterprises (SMEs) play a big role when it is related to economic and domestic social issues such as high poverty rates, unemployment, inequality distribution, uneven processes and urbanization problems with all the negative outcomes. It can be interpreted that the existence and the development of SMEs are expected to give significant contribution to repair the problem.

In Bali Province, SMEs are part of the business that sustains community life. This is in accordance with Law No. 3 year 2014 on Industry, which stated that industry was held for the purpose of:

- contribution of manufacturing sector to GDP;
- employment; and
- contribution of industrial commodities for goods and service export.

Industries in Bali when seen from the number of business units, was 8,706 business units (2010) rose to 12,084 business units (2014) with an average increase of 8.98 per cent per year. Textile industries and textile products become one of the backbone of manufacturing SMEs that are still prospective to be developed in Bali. The export opportunities of the textile industries and textile products are still quite large in terms of Indonesia's high textile exports, with 62 per cent per annum on average total exports, and Indonesian textile exports reach US \$10.83bn (Industry and Trade Service of Bali Province, 2015). Indonesia's textile export potential targets are the USA, Australia, Middle East, Europe and Japan (Kompas, 2014).

SMEs of the textile industry have shown their achievement in terms of export value during the period 2012-2016, but the growth trend has decreased (Industry and Trade Service of Bali Province, 2017). Indications of an industry's development are reflected in improved business performance. Business performance is determined by internal capabilities and the role of external environment (Salleh *et al.*, 2010). Internal factors and the role of external environment such as government role, consumer preference and globalization affect business performance. The era of globalization characterized by technological advances, uncertainty, changes in consumer preferences, and the age of increasingly short innovations require companies to protect themselves from competitors' pressures. Competition becomes appropriate and the core of success, when companies are able to adapt, change and build a culture of innovation (Wong, 2013).

It has universally been recognized that the key to corporate survival is innovation (Saunila *et al.*, 2014; Batra *et al.*, 2015). Innovation is described as the successful implementation of creative ideas within an organization (Otero-Neira *et al.*, 2009). The concept of innovation from an organizational perspective is described as the ability to create something new or bring about renewal, change, and behavior by using existing abilities (Rhee and Lee, 2010). Organizational skills in transforming knowledge and ideas into new processes, systems, or products show an innovation (Huhtala *et al.*, 2014).

Research has reached consensus that innovation has a positive effect on business performance from the perspective of market share growth, productivity, sales and profitability (Jimenez and Valle, 2011; Al-Ansari *et al.*, 2013; Saunila, 2014; Hilman and Kaliappen, 2015). However, there are still other researchers who find the effect of innovation on business performance insignificant (Darroch, 2005; Hilmi *et al.*, 2010). It is not easy for companies to improve business performance, without innovation. Given the importance of innovation in relation to the company's competitive position, then the question is how to improve organizational innovation. A number of researches have tried to identify the key determining factors of company capacity to innovate (Damanpour, 1991; Keskin, 2006). The internal factors that is able to strengthen the innovation, such as organizational culture and abilities (Clulow *et al.*, 2007). The literature highlights the variables of market orientation and innovation (Huhtala *et al.*, 2014; Newman *et al.*, 2016), the relationship of learning orientation and innovation (Calantone *et al.*, 2002; Mauludin *et al.*, 2013; Mahmoud *et al.*, 2016) and the relationship of competence of knowledge and innovation (Griese *et al.*, 2012; Ozkaya *et al.*, 2015) as an antecedent of innovation and its consequences to business performance.

From the practitioners' point of view, the question arises as to what factors are the keys to the success rate of innovation and business performance in the context of industrial SMEs in Bali. From a theoretical point of view, the question arises as to how innovation and success of manufacturing SMEs can be explained by a model of market orientation, learning orientation and integrated knowledge competence.

Implementation of marketing concept philosophy shows market orientation. Resource-based view (RBV) theory asserts that competitive advantage and business performance are determined by resources (Wernerfelt, 1984; Barney, 1991; Najafi-Tavani *et al.*, 2016). One's market orientation can be seen from the level of customer orientation, its orientation to competitors and its inter-functional coordination (Narver and Slater, 1990; Huhtala *et al.*, 2014). Managers who build market orientation contribute to organizational innovation skills (Zhang and Duan, 2010; Wang and Chung, 2013). Likewise with textile product managers in Bali, they need to improve market-oriented behavior by actively exploiting external opportunities through interaction with customers into internal resource capabilities to improve innovation capabilities. In this case, organizations with a high degree of market orientation tend to encourage knowledge competence. Market orientation as an organizational culture that seeks to understand customers improves learning mechanisms so that knowledge competence increases (Harmancigolu *et al.*, 2010).

Experts have recognized the importance of learning orientation toward business performance (Calantone *et al.*, 2002). Learning orientation creates new information and knowledge, and uses existing knowledge effectively from external sources and obtains information (Mauludin *et al.*, 2013). Organizations with high learning orientation will exhibit responsive behaviors to environmental change, i.e. market and customer developments (Frank *et al.*, 2012). Learning orientation as an activity of creating knowledge leads companies to learn faster than competitors in enhancing knowledge and skills, leading to superior performance (Haryanto *et al.*, 2017).

According to the theory of RBVs, organizational capabilities such as knowledge competence are a tool for gaining competitive advantage (Atuahene-Gima and Wei, 2010). Knowledge competence has become an organization's strategic asset. Ozkaya *et al.* (2015) examines the relationship of knowledge and innovation competence to large corporations in the United States and China, where the literature provides evidence that the higher the knowledge competence is, then the greater the level of innovation. Knowledge competence leads to the process of acquiring knowledge, by processing information that enables a company to minimize the risk of miscalculation of the needs of the buyer and the company in creating an innovation opportunity. Knowledge competence as a company's ability to identify information and acquire new knowledge from external sources tends to allow companies to adopt new ideas, processes and products (Chang *et al.*, 2015).

It has been universally acknowledged that the key to the sustainability of the company is innovation. (Saunila *et al.*, 2014; Batra *et al.*, 2015). Innovation is illustrated as the success of creative ideas implementation in an organization (Otero-Neira *et al.*, 2009). Innovation concept from the organizational perspective is illustrated as an ability to create something new or bring a novelty, modification and a behavior by using the existing ability (Rhee and Lee, 2010). Organizational skill to modify knowledge and idea to the process, system, or a new product shows an innovation (Huhtala *et al.*, 2014). The research has been a consensus that innovation has a positive impact on business performance from the perspective of market share growth, productivity, sales and profitability (Jimenez and Valle, 2011; Al-Ansari *et al.*, 2013; Saunila, 2014; Hilman and Kaliappen, 2015). However, the relationship between innovation and business performance has never been consistent. There is still another study that finds that the effect of innovation on business performance is not

significant (Darroch, 2005; Hilmi *et al.*, 2010). However, it is not difficult for a company to improve business performance without having innovation. When realized the importance of innovation in its relationship with the company's competitive position, a large amount of literature highlights the potential of important variables leading to the innovation and business performance. A number of studies try to identify the main determinant factor of company capacity to innovate (Damanpour, 1991; Keskin, 2006). Internal factor is able to support innovation, such as organizational culture and ability (Clulow *et al.*, 2007). The literature highlights market orientation variable (Huhtala *et al.*, 2014; Newman *et al.*, 2016), learning orientation (Calantone *et al.*, 2002; Mauludin *et al.*, 2013; Mahmoud *et al.*, 2016) and knowledge competence (Griese *et al.*, 2012; Ozkaya *et al.*, 2015) as an antecedent of innovation and its consequence of business performance. Market orientation as an implementation of marketing concept has been an important concept for a company's success. In recent years, the study has introduced many market orientation ideas as an important trend. An empirical study has been carried out to test the relationship between market orientation and business performance. RBV theory emphasizes that competitive advantage and business performance is determined by resources (Wernerfelt, 1984; Barney, 1991; Najafi-Tavani *et al.*, 2016). Someone's market orientation as an organizational culture can be seen from the level of customer orientation, its orientation to the competitor, and inter-functional coordination (narver and Slater, 1990; Huhtala *et al.*, 2014). A manager who builds market orientation contributes to the organizational innovation skill (Zhang and Duan, 2010; Wang and Chung, 2013) and business performance (Saunila *et al.*, 2014).

In addition, Calantone *et al.* (2002) have admitted the importance of learning orientation to the innovation and business performance. A study in the marketing field emphasizes that learning orientation creates information and new knowledge and uses the existing knowledge effectively from the external source and get information (Westerlund and Rajala, 2010). An organization with a high level of learning orientation will show responsive behavior to the environmental change, which is market and customer orientation (Mauludin *et al.*, 2013). Learning orientation as an activity to gain knowledge causes a company to learn more quickly than the competitor in terms of improving knowledge and skill that leads into the knowledge competition (Griese *et al.*, 2012; Foong and Khoo, 2015), innovation (Rhee and Lee, 2010) and an advantage business performance (Frank *et al.*, 2012; Haryanto *et al.*, 2017).

RBV theory decides resource as an organizational capability like a knowledge competition is a way to get a competitive advantage (Kandemir, 2005; Atuahene-Gima and Wei, 2010). Knowledge competence has been an organizational strategic asset (Li and Calantone, 1998). Organizational tendency to scan market to understand trend and circumstance in a business environment, to share through transformation among the relevant user, information interpretation to become knowledge and the utilization of knowledge as a base of action shows the level of knowledge competency influenced by market orientation (Kandemir, 2005).

What Kaya *et al.* (2005) found in accordance with the relationship between knowledge competition and company innovation in the USA and China proves that the higher the competency, the bigger the innovation level. Knowledge competence leads to the process of gaining knowledge by processing information that enables a company to minimize the risk of miscalculation of buyer and company needs in creating an innovation change. Knowledge competence as a company's ability to identify information and gain new knowledge from the external sources tend to enable the company to adopt ideas, processes, and new product (Chang *et al.*, 2015). A study conducted in a market of a developed country that has a different still relatively small context of culture, social and economy. There is no published literature that has studied the impact of market orientation, learning orientation on the

innovation and business performance by strengthening a knowledge competency role in the context of SMEs manufacturing in Indonesia.

The positive role of innovation on performance has been supported by many empirical studies (Calantone *et al.*, 2002; Keskin, 2006). Innovation is a reflection of environmental uncertainty, the turbulence of the business environment that encourages the adoption and development of new ideas, processes, services, products into business performance determinants (Vicence *et al.*, 2015). As a result, this research seeks to explore the common implications of the level of market orientation, learning orientation on knowledge competence, innovation, and business performance in the context of SMEs of the textile product industry. The lack of studies in the existing literature underscores the potential contribution of this subsequent study. Thus, the purpose of this study is to provide new practical and theoretical insights on how SMEs adjust and further develop business competencies, innovations and performance by using market orientation and learning orientation behaviors. Based on the description, this study explains the effect of learning orientation on knowledge competence, the influence of market orientation and learning orientation toward knowledge competence and innovation, the influence of knowledge competence on innovation; the influence of innovation on business performance, the role of knowledge competence in mediating the effect of market orientation on innovation, the role of knowledge competence in mediating the influence of learning orientation toward innovation, the role of innovation in mediating the influence of market orientation on business performance and the role of innovation in mediating the effect of learning orientation on business performance.

The novelty of the research is first, to develop a concept of entrepreneurial orientation that is linked to competence of knowledge and business performance, which this link has not been much expressed in the context of industry SMEs; second, to build the concept of innovation development of small and medium-sized industry of textile industry based on market orientation by strengthening the mediation role of competence of knowledge; third, to build the concept of innovation development of small and medium-sized business of textile industry based on learning orientation by strengthening the mediation role of competence of knowledge; fourth, to investigate in an integrated and holistic manner the concept of market orientation, learning orientation, entrepreneurial orientation and competence of knowledge to strengthen the innovation ability and business performance of SMEs of textile industry in Bali.

This research contribution is to connect theoretically and to conduct an empirical test of the relationship between five important constructions. Hence, the purpose of this study is first to facilitate the role of market orientation, learning orientation, and knowledge competence to the innovation and business performance; secondly, to observe the effect of knowledge competence mediation in the relationship of market orientation and learning orientation to the innovation and business performance. This research is expected to bring a new theoretical view on how manufacturing SMEs adopts, develops and uses market orientation and learning orientation behavior to increase innovation and business performance by strengthening mediation role of knowledge competence. For that matter, the novelty of this research is first, to develop the concept of learning orientation related to the knowledge competence, in which this link has not been widely expressed in the context of manufacturing SMEs; second, to build a concept of innovation development of SME of textile industry based on the market orientation by strengthening mediation role in the knowledge competence; third, to build an innovation development concept of a SME of textile industry based on the orientation of learning by strengthening mediation role in the knowledge competency; fourth, to investigate in an integrated way and holistically with the concept of market orientation, learning orientation and knowledge competence to strengthen innovation ability and business performance of manufacturing SMEs.

This study also elaborates the benefits will gain and gives a new insight for the practitioner to integrate operational pattern under the principle of market orientation and learning orientation to strengthen innovation, and business performance of manufacturing SMEs by improving the role of knowledge competency mediator. Especially, an effort is conducted to widen the existing study in the market orientation and learning orientation. SMEs context from textile industry provides some interesting insight. This study outlines the benefits and provides insight for practitioners to integrate patterns of operation with the principles of market orientation and learning orientation to strengthen knowledge competence, innovation and business performance of SME manufactures. In particular, efforts are made to expand existing research on market orientation and learning orientation. Little research has been found that investigates how market orientation and learning orientation strategies are capable of developing knowledge competence, innovation, and business performance. The context of SMEs of the textile product industry provides some interesting insights.

The paper is structured as follows: In Section 2, we will review the literature on market orientation, learning orientation, knowledge competence, innovation and business performance and will generate a conceptual framework of research. Section 3 describes the methodology applied for conducting the research. Section 4 elaborates results and discussion for this study. Section 5 summarizes the application of our findings and concludes with further prospects for research and business.

2. Literature review and development of conceptual framework

2.1 Business performance

Business performance shows the result of an organization (Saunila *et al.*, 2014). Measuring business performance enables companies to focus on areas that need to be improved by assessing how well the work is done in terms of cost, quality, quantity and time (Skrinjar *et al.*, 2008). According to Hult *et al.* (2004), business performance shows the achievement of organizational goals. Business performance is measured by using subjective measurements based on staff and manager perceptions. Operationally, business performance is measured by indicators of sales volume, profitability, and market share (Najib and Kiminami, 2011). The level of innovation contributes to business performance and helps companies to survive in markets (Jimenez and Valle, 2011; McDermott and Prajogo, 2012; Huhtala *et al.*, 2014).

2.2 Innovation

Nowadays, fierce competition, endless turbulence and an uncertain environment force organizations to embrace innovation as a corporate strategy. Innovation becomes a strategic tool for companies in the face of changes in internal and external environment. Innovation is defined as the implementation of an idea regarding new devices, products, systems, processes, programs or services (Damanpour, 1991; Saunila and Ukko, 2012). Innovation is also defined as the ability of a company to seek something new or better by identifying, obtaining and performing tasks related to products, services, processes, administrative and management systems, marketing methods and organizational structures (Calantone *et al.*, 2002; Brem and Voigt, 2009). The organizational trend to innovate can be seen from company indications to engage in new ideas, novelty, creative processes and experiments that will create new products/services (Lin *et al.*, 2008).

The ability of managers to build market orientation contributes to the level of innovation. The culture and behavior of market orientation monitor how customers and competitors move in business. Market information obtained from customers and competitors helps companies to monitor markets and facilitate innovation (Lin *et al.*, 2008). The market orientation through its relationship with customers creates product innovation (Roach *et al.*,

2014; Chang *et al.*, 2015). Illeris (2004), in the workplace learning model, was echoed by other studies to show the difference in employees' perception regarding the learning practices effectiveness with a learning process (Fuller and Unwin, 2005), ever-changing work environment (Paloniemi, 2006), workplace that is considered as a learning environment or not (Coetzer, 2007) and employees' personal characteristics (Beitler and Mitlacher, 2007).

2.3 Market orientation

Marketing literature has considered market orientation to be a key part of organizational culture (Carbonell and Escudero, 2010; Chung, 2012). Market orientation emphasizes the organizational culture that generates the behavior needed to create superior value for customers. Empirical research has found activities in which companies are engaged in new product development activities, linked to their market orientation level. Three behavioral components such as customer orientation, competitor orientation, and inter-functional coordination are key to organizational success (Narver and Slater, 1990; Wang and Chung, 2013). The willingness and effort of the company to collect market information (e.g. information on prices, desired products, customers, competitors, suppliers, government regulations and environmental changes) and disseminates information throughout the organization and responds to market intelligence shows examples of behaviors that reinforce a company-oriented identity market (Newman *et al.*, 2016). Thus, we propose the following hypothesis:

H1. The more the market orientation increases, the stronger the innovation is.

2.4 Learning orientation

Sinkula *et al.* (1997) develop the original concept of learning orientation as a basic attitude toward learning that enables the organization to learn. Meanwhile, organizational learning is a dynamic process of knowledge accumulation (Frank *et al.*, 2012). Learning orientation as an attitude or value system will influence the organizational tendency to create and use knowledge (Sheng and Chien, 2015). The level of organizational learning orientation is shown by the effort to develop new knowledge or insights that have the potential to influence behavior through values and beliefs (Huber, 1991). Wolff *et al.* (2015) introduces a conceptual framework of learning orientation as organizational values such as principles, morals, ethics and standards affecting organizational behavior that ultimately generate results. Organizational values consist of sets of values of learning commitment, shared vision and open-mindedness (Baker and Sinkula, 2005; Calantone *et al.*, 2002). Thus, learning orientation requires the elements of open-mindedness and commitment to learning as a driver of organizational learning. Learning takes place when organizational members as learning agents respond to changes in the external environment and the internal environment by detecting and correcting errors in the use of organizational theory that allow the insights of decision makers to exploit opportunities (Wolff *et al.*, 2015).

Learning orientation is a basic attitude toward learning that results in organizational learning processes (Sinkula *et al.*, 1997). According to Wolff *et al.* (2015), learning orientation at least requires elements of commitment to learn and open-mindedness as a precursor for organizational to learn and successful adaptation. The organizational ability to learn is seen as a source of sustainable competitive advantage (Levinthal and March, 1993). The behavior to use the external opportunities and company's internal sources in supporting the organizational learning orientation will create innovation ability (Calantone *et al.*, 2002; Chen *et al.*, 2009; Raju *et al.*, 2011; Calisir *et al.*, 2013; Chang *et al.*, 2015). Based on this evidence, we suggest:

H2. The more the learning orientation increases, the stronger the innovation is.

2.5 Entrepreneurial orientation

Entrepreneurial orientation contributes to performance and is defined as a compound measure (compound, a combination of several components) that covers the dimensions of growth and also includes financial performance (Wiklund: 1999) so that courage to take risks, innovative and proactive attitudes will make companies- small companies can beat their competitors. In this case, the aggregate measurement of the concept of entrepreneurial orientation is based on the assumption that all three sub dimensions (innovation, proactivity and risk taking) make the same contribution to the overall level of entrepreneurial orientation of the company in all situations (Vitale *et al.*, 2002). Nevertheless, several studies on entrepreneurship state that each of these sub-dimensions is likely to make a unique contribution to the entrepreneurial conditions of a company (Lumkin and Dess, 1996).

2.6 Knowledge competence

Competence approach focuses on internal factors. The term competence was first introduced by Selznick (1957), referring to things done very well by organizations rather than competitors (Kandemir, 2005). Competence is a collection of complex skills and collective learning that is done through organizational learning (Day, 1994). Competence is based on a set of capacities that deal directly with the knowledge, skills and attitudes of the individuals involved in the process. Competence is important for achieving competitive advantage (Barney, 1991; Griesse *et al.*, 2012). A RBV explains that knowledge competence is an intangible resource that significantly affects business strategy and performance (Li and Calantone, 1998).

Knowledge competence acts as the internal ability of the organization to achieve superior performance; thus, the company must be able to identify, seek, develop, use and maintain competence. Knowledge competence arises from market information gathering activities, information sharing and develop shared understanding of markets, followed by application of market knowledge to the formulation of marketing and implementation strategies (Kandemir, 2005; Foong and Khoo, 2015).

The successful goals include the successful knowledge-building efforts due to a match between internal strategic behavior and external environmental conditions (Chang *et al.*, 2015). The positive attitude of the importance of learning orientation to increase the insight and knowledge play a role in improving competence of knowledge (Griesse *et al.*, 2012; Wu and Lin, 2013). Consequently, we propose the following:

H3. The more the market orientation increases, the higher the knowledge competence is.

Successful targets include successful knowledge development efforts due to a match between internal strategic behavior and external environmental conditions (Chang *et al.*, 2015). The positive attitude of the importance of learning orientation to increase insight and knowledge plays a role in improving knowledge competence (Griesse *et al.*, 2012; Wu and Lin, 2013).

An attitude towards learning and intention to result and use knowledge indicates a learning orientation. An improving learning orientation is realized by a commitment to learning, share a vision and having an open mind and to seek for, spread and use information to improve competency (Hoe, 2008). A success target is categorized as a successful knowledge development effort because of suitability between internal strategic behavior and external environmental condition (Chang *et al.*, 2015). The positive attitude of the importance of learning orientation to improve insight and knowledge plays an important role in improving knowledge competence (Griesse *et al.*, 2012; Wu and Lin, 2013).

Organizational commitment to independently learn as an effort to have new knowledge shifts the created knowledge by inventing a knowledge competence (Foong and Khoo, 2015).

Therefore, we offer the following hypotheses:

H4. The more the learning orientation increases, the higher the knowledge competence is.

Knowledge competency relates to innovation. A study conducted by Maheswari *et al.* (2017) in India determines that the owner and manager of SME as a source of knowledge by conducting systematical activity including acquisitions, creation, saving, and sharing knowledge lead to innovation. An effort to collect information and conduct transformation information to market knowledge improves innovation (Li and Cavusgil, 1999; Harmancigolu *et al.*, 2010). Competency enables a company to have a chance to make innovation and get a new product advantage (Bhatnagar and Gopalaswamy, 2017). An ability to change information to knowledge gives support for innovative behavior (Chang *et al.*, 2015). Generally, knowledge competence has a positive effect on the idea success, a new product in every period, a new process and service (De Luca and Atuahene-Gima, 2007; Johnson and Atchison, 2009). For that matter:

Therefore, we offer the following hypotheses:

H5. The higher the knowledge competence, the higher the level of enterprise innovation is.

RBV theory sees innovation as a resource that facilitates a company to achieve a competitive advantage. A successful innovation is more considered as contributing factor to the business performance in several industries (Ndubisi and Iftihkar, 2012). Innovation helps a company to stay in the market (Jimenez and Valle, 2011). When a company has an ability to try a new idea or develop a product/service so that it will be able to offer an innovative product (Rosenbusch *et al.*, 2010). The innovative product creates a new demand, and for that matter the sales volume, market share and the profits increase (Saunila and Ukko, 2012). Referring to the theoretical review supported by research result so the proposed hypotheses are as below:

Therefore, we offer the following hypotheses:

H6. The stronger the level of innovation, the higher the business performance is.

Recent research (Ozkaya *et al.*, 2015) found that market orientation effects the innovation through the mediation of competence of knowledge variables. The competence of market-related knowledge shows the ability of a company to transform information into new product design knowledge (Li and Calantone, 1998; Kandemir, 2005). By knowing what customers want and what competitors do is important, but turning market information into innovative knowledge requires one different thing, namely, the competence of knowledge (Bhatnagar and Gopalaswamy, 2017). Organizational competence of knowledge can be developed through positive attitude of learning orientation and intention (Wu and Lin, 2013; Foong and Khoo, 2015). Based on this evidence, we suggest:

H7. Market orientation influences innovation through knowledge competence mediation.

Attitudes determine behavior, as well as the importance of learning which has a positive effect on the intention of behaving in increasing the knowledge (Foong and Khoo, 2015). Organizations have a view that learning is important for the future of the organization by continually striving to create learning by gathering information, sharing information and

using information that fosters the knowledge competence process (Fang *et al.*, 2015). The learning orientation that occurs through organizational observation and interaction with the environment allows the company to create competencies related to market knowledge. Acquisition activities, dissemination and environmental scanning to collect information and create knowledge make the company more adaptive that contribute to innovation (Suliyanto and Rahab, 2012). Based on the description, the following hypothesis is proposed:

H8. Learning orientation influences innovation through knowledge competence mediation.

The findings of the literature show that information acquisition has an effect on innovation. The market orientation has a relationship with innovation (Wei *et al.*, 2012). Market-oriented behavior tends to strengthen efforts to gather relevant information. Focus on transforming information into knowledge, that is, information gathered about customers and competitors creates knowledge competencies. Utilization of information and knowledge as a reflection of knowledge competence opens innovation opportunities (Gotteland and Boulé, 2006). Based on the description, the following hypothesis is proposed:

H9. Market orientation influences business performance through innovation.

Attitudes toward learning and the intention of generating and using knowledge become an indication of a learning orientation. Organizational commitment to self-learning as an effort to gain new knowledge replaces the knowledge that has been created by creating knowledge competence (Foong and Khoo, 2015). Increased learning orientation is realized with a commitment to learning, sharing of vision and having an open mind, seeking information, disseminating and using information to improve competence (Hoe, 2008). The ability to transform information into knowledge provides support for innovative behavior (Chang *et al.*, 2015). Releasing ideas, new products in each period, new processes and services lead to improved business performance (Ndubisi and Iftikhar, 2012). Based on theoretical studies supported the results of previous research, the following hypothesis is proposed:

H10. Learning orientation influences business performance through innovation.

2.7 Conceptual framework

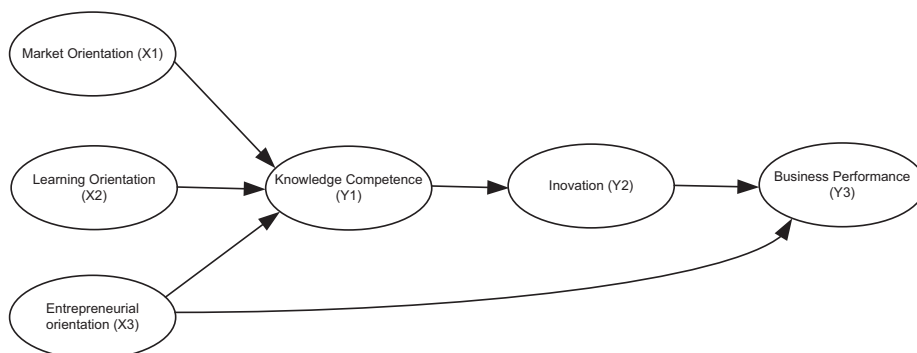
Based on the description in the framework of thinking, then, it can be arranged a research concept framework as seen in Figure 1.

3. Methodology

3.1 Sample

The data was collected from manufacturing SMEs of textile products that had a number of employees between 5 and 99 people in the province of Bali, Indonesia, in 2016. Bali province was chosen as a research location because Bali was one of the tourism centers in Indonesia and even in the world, was considered suitable for this research. It was because it had textile product industries that contributed in the fulfillment of the needs of tourism clothing, national economy, the fulfillment of fashion needs, and foreign exchange contributors from non-oil exports (Industry and Trade Service of Bali Province, 2017).

This research was conducted in Indonesia, given Indonesia is a developed country with economic power in Asia, has a diverse community both economically and socially, has a potential to become world economic power. In Indonesia, manufacturing SMEs plays an

Figure 1.
Conceptual
framework

important role if connected to the economic and social problem, such as high poverty level, jobless, a gap of distribution, uneven development and urbanization problem. The existence of manufacturing SMEs development is expected to give a significant contribution to the effort of solving that problem. Indonesia manufacturing SMEs is recently developing and innovative. However, this research is still limited to how manufacturing SMEs in Indonesia and what factors that give positive and significant contribution for innovation and business performance improvement. From the practitioner perspective, it raises a question about key factors of the success of innovation level and business performance in the context of manufacturing SMEs in Indonesia. From the theoretical point of view, it raises a question on how innovation and the success of the business performance of manufacturing SMEs can be explained by market orientation model, learning orientation and an integrated knowledge competence. As a result, this research tries to explore general implications from the level of market orientation, learning orientation and learning competence in innovation and business performance in the context of manufacturing SMEs. The lack of study in the existing literature underlines the potential contribution from the coming up study.

The population of this research was all of SMEs of textile industry in Bali which amounted to 125 textile industries. The number of samples taken referred to the Slovin formula (Fernandes and Solimun, 2017), which obtained the sample size of 94 respondents. The technique of determining the sample was stratified proportional random sampling method. Furthermore, the researchers used simple random sampling method in selecting the respondents. During the analysis, 24 of the 94 questionnaires had to be canceled for various reasons such as the company not meeting the definition of manufacturing SMEs and the response to incomplete questionnaires. For some reasons, 70 managers were available to be interviewed and to answer the questionnaire. Inferential statistical analysis techniques with path analysis approach were used to test the hypothesis. Data processing was done by path analysis approach by using GSCA with second-order confirmation factor analysis (Solimun and Fernandes, 2017; Indarti *et al.*, 2017).

3.2 Questionnaire design

Quantitative research method based on positivism was used in this study for primary data collection. Quantitative approach was useful for data verification and confirmation. The primary data collected by the survey was data collected directly from respondents from direct interviews and respondents' perceptions of market orientation, learning orientation, knowledge competence and innovation and business performance. Structured question in questionnaire design used in this research was formulated based on literature review. The

identified research variables were measured subjectively with a five-point Likert scale. This study considered the question of designing the questionnaire with care such as appearance, sequence and words. Details of the measurement items data were shown.

Validity and Reliability Test. The validity test shows how concrete a test is in measuring what is supposed to be measured. It is related to the accuracy of the measurement tools in functioning to reach a target and objective of a measurement. The research validity instrument was conducted using a method of correlation among statement point scores with a total score (indicator) within the level of significance 5 per cent or alpha of 0.05. The statement points considered valid if it has a coefficient of positive correlation and is beyond 0.30 or the correlation coefficient value (r) > 0.30.

The reliability test is a test to show how far a measurement tool can be trusted or relied on. A scale or data measurement instrument, and the data generated can be considered reliable or trustworthy if the instrument consistently shows the same result every time a measurement is conducted. The reliability test was using a statistical test by measuring the Cronbach alpha. A research instrument is considered reliable if it has a Cronbach alpha beyond or equal to 0.60 (Latan and Ghozali, 2012, p. 50).

3.3 Measures

3.3.1 Market orientation. Market orientation (X1) was an organizational culture that created the behaviors necessary to generate superior value for customers. The measures of market orientation developed by Zhang and Duan (2010), Newman *et al.* (2016) which were adopted in this study consisted of three components of customer orientation (four items), competitor orientation (three items), and inter-functional coordination of management (three items).

3.3.2 Learning orientation. Learning orientation (X2) was the manager's orientation to learning that led to efforts to improve market knowledge and understanding to improve competitiveness. The measures of learning orientation developed by Calantone *et al.* (2002), Frank *et al.* (2012) and Wolff *et al.* (2015) which were adopted in this study consisted of a youth commitment (three items), shared vision (three items), and open-mindedness (three items).

3.3.3 Entrepreneurial orientation. Entrepreneurial orientation (X3) is the entrepreneur's behavior in finding new markets, serving customers, beating competitors in taking advantage of business opportunities and daring to do risky ventures. The measurement of entrepreneurial orientation in this study is consistent with Lumpkin and Dess (1996) measures; Vitale *et al.* (2002), and Keh *et al.* (2007), can be measured through three indicators namely innovative, proactive and risk.

3.3.4 Knowledge competence. Knowledge competence (Y1) was an organizational behavior that led to efforts to generate and integrate market information into market knowledge. To assess knowledge competence, this study adopted a knowledge competence item developed by Li and Calantone (1998) and Ozkaya *et al.* (2015) with three items, namely, the ability of the customer knowledge process, the ability of the customer knowledge process, good market knowledge.

3.3.5 Innovation. Innovation (Y2) was the ability of management to adopt, accept, and apply new ideas, products, mechanisms, processes or behaviors to gain competitive advantage. The measures of innovation was adopted from Nasution *et al.* (2011) and Roach *et al.* (2014), which consisted of product innovation (four items) and process innovation (four items).

3.3.6 Business performance. Business performance (Y3) was the result of management operations and strategies carried out over a given period. Because this research used multi-company, to control the difference in performance, business performance was measured by

adopting the measures proposed by [Al-Ansari et al. \(2013\)](#) and [Huhtala et al. \(2014\)](#), subjective performance based on market effectiveness which consisted of three items, including market share growth, sales volume and profitability.

Data analysis technique: the descriptive statistical analysis was used to describe the respondents' characteristics and perception regarding the indicators of each research variable. This analysis used the average calculation and frequency to depict the profiles of the respondents and descriptions of the research variables. The descriptive statistical analysis was also used to describe the respondents' responses toward the questions. The respondents' responses can depict their perception regarding the indicators, which reflect the research variables.

The model in this research is the causality model (cause-effect relations), wherein the causal relationship formulated in this research used a model that is not simple. The form of causal relationship requires an analysis instrument that can explain the relationship, which is the inferential statistical analysis. The technique of inferential statistical analysis using the path analysis approach was applied to examine the hypothesis. The data analysis through the path analysis approach using the PLS (partial least square) with the second-order confirmatory factor analysis ([Ghozali, 2012](#)).

According to [Latan and Ghozali \(2012\)](#), the model evaluation in the PLS is conducted by assessing the result of model measurement, which is through the analysis of confirmatory factors by testing the validity and reliability of the latent constructs. Furthermore, it is continued by the structural model evaluation and significance test to examine the influence among constructs or variables.

3.3.6.1 Evaluation of measurement model (outer model). The evaluation of the measurement model or outer model was conducted to assess the model's validity and reliability. The outer model with a reflective indicator was evaluated through the convergent validity and discriminant validity of the latent constructs indicator and composite reliability, as well as Cronbach's alpha to block the indicator.

3.3.6.1.1 Convergent validity. Convergent validity is a correlation among score component items. According to [Chin \(1998\)](#), the adequate value is between 0.50 and 0.60 for development research and beyond 0.70 is considered high.

3.3.6.1.2 Discriminant validity. Discriminant validity is related to the principle that the different construct meters (manifest variable) should not correlate highly. The discriminant test can be conducted by examining the cross-loading with its latent variables or by comparing the square root of average extracted (AVE) value of each latent variable and the correlation among other latent variables within the model.

3.3.6.1.3 Composite reliability dan Cronbach's alpha. Testing construct reliability using the criteria of composite reliability. A group of indicators that measures a variable has good composite reliability if it has a value beyond 0.70.

3.4 Measurement model

The measurement model test was related to the five variables in this research model. The following test results related to the measurement model. The validity of each item was shown in the correlatin value of > 0.30 ([Indarti et al., 2017](#)). A mean between 3.5 and 4.49 indicated that this item was considered as high by the respondents, a mean between 4.50 and 5.00 indicated that this item was considered as very high by the respondents. The measurement model test is related to the five variables in this research model. The following test results relate to the measurement model. Validity of each itemize shown in value of correlatin > 0.30 ([Indarti et al., 2017](#)). The mean between 3.5 and 4.49 indicate that this item

is perceived high by the respondents, the mean between 4.50 and 5.00 indicate that this item is perceived very high by the respondents.

Based on [Table I](#), it can be explained that all indicators and items significantly measured each variable. The result of analysis also showed that the strongest indicator as indicator of market orientation (X1) was CO1 indicator, with loading factor value equal to 0.817, and the highest item was listening to customer opinion with loading factor value of 0.814. In learning orientation variable (X2), it was known that the strongest indicator as the measure was CL, with loading factor value of 0.881, and the highest item was establishing a relationship with the partner with the loading factor value of 0.873. The analysis also shows that the strongest indicator as an indicator that proves entrepreneurship (X3) is the Innovative indicator, with a loading factor value of 0.835, and the highest item finds a non-product way to create value for customers through distribution channels, salespeople and advertisements with value loading factor of 0.801. In the knowledge competence variable (Y1), it was known that the strongest indicator (because of its size) was KC3 with item of having market knowledge with loading factor value of 0.811. In Innovation Variable (Y2), it was known that the strongest indicator as its measure was product innovation (IPd1) with loading factor value of 0.889, and the highest item was the launching of new products considered by customers with the same loading factor value to 0.856. In the business performance variable (Y3), it was known that the strongest indicator as the measure was BP3 (Y3) with the profit of the company's item increased during the last three years with the loading factor value of 0.891.

3.5 Test of linearity assumption

In GSCA analysis, there is one assumption that must be fulfilled before the analysis, namely linearity assumption, which requires the relationship between variables that are linear ([Fernandes and Solimun, 2017](#)). The linearity assumption using the Curve Fit method is the relationship between the variables are linear if fulfill one of the following two possibilities: (1) significant linear model (linear model sig <0.05), (2) non-significant linear model and all possible non-significant models (linear model sig > 0.05, and sig model other than linear > 0.05). The test results show that the linear model value is <0.05 so that the model is said to be linear and meets the specified assumptions.

3.6 Goodness of fit

Based on the feasibility test result of model structurally measured by using FIT and AFIT, it is obtained FIT value of 0.875 and AFIT value of 0.730. The FIT value explains that the total diversity that the model can explain is 87.5 per cent. It means that the model formed can explain all the existing variables by 87.5 per cent. The diversity of Market Orientation variables, learning orientation, competence of knowledge, innovation, and business performance can be explained by the model of 87.5 per cent, and the remaining 12.5 per cent can be explained by other variables outside the model. While the overall model feasibility test results measured using GFI and SRMR, it is obtained GFI value of 0.923 and SRMR value of 0.045. GFI value greater than 0.900 and SRMS value less than 0.08 indicates that the model used is good fit.

4. Result and discussion

4.1 Direct effect of structural model

Direct effect showed the direct relationship between variables. The results of the model (as shown in [Table II](#)) showed that there was direct correlation. The results supported *H1*. The correlation value of market orientation with knowledge competence was ($\beta = 0.453$, $p < 0.000$). The value of regression coefficient was positive 0.453, and p value was ($0.000 < 0.05$),

Variables	Indicators	Item	Mean	Correlation	Outer loading
Market Orientation (X1)	CO1	Hearing the costumer's opinion	4.18	0.479	0.814
	CO2	Understanding the costumer's need	3.95	0.413	0.729
	CO3	Focus on costumer commitment	4.18	0.418	0.705
	OPI	Customer satisfaction	4.22	0.461	0.784
		Focus to determine the target costumer	4.44	0.423	0.778
		Finding the competitor information	3.66	0.376	0.740
Learning Orientation (X2)	KI	Sharing the competitor information	4.37	0.477	0.801
		Integrating in all function	3.83	0.446	0.782
		Having a culture of inter-functional cooperation	4.39	0.446	0.759
	CL	Having a good communication inter-functional	4.42	0.461	0.795
		Having a continuous learning focus intention	3.94	0.432	0.735
		Establishing relationships with partners	4.59	0.457	0.873
Entrepreneurial Orientation (X3)	SV	Have a good motivation to learn	4.06	0.438	0.794
		Employee engagement/commitment to goals	3.92	0.452	0.788
		Management shares the vision with lower levels	4.24	0.413	0.782
	OM	Having a shared understanding of the future direction	4.46	0.403	0.765
		Providing support for original ideas	4.35	0.414	0.779
		Placing a high value on the openness	3.68	0.419	0.718
	Innovative	Having the courage to ask the common beliefs	4.06	0.406	0.784
		finding new business targets or markets	4.22	0.421	0.711
		creating new products that will complement value to new or existing customers	3.88	0.419	0.752
	Proactive	finding non-product ways to create value for customers	4.01	0.402	0.801
		through distribution channels, sales forces and advertising	3.92	0.481	0.798
		find ways to create value for customers through partnership relationships with other sellers			
		beating competitors to enter new markets	4.29	0.527	0.782
		introducing new products or services before competitors do	4.33	0.435	0.755
		increase value for customers	3.88	0.463	0.866
		through non-product means such as distribution before competitors do	4.62	0.471	0.749

(continued)

Orientation variables on business performance

Table I.
Mean, correlation and outer loading

Table I.

Variables	Indicators	Item	Mean	Correlation	Outer loading
Competence of knowledge (Y1)	Risk	there are almost always ways to avoid failure	4.35	0.526	0.711
		to make effective changes at least willing to accept moderate/reduced risk	4.20	0.438	0.893
		the risk of missing an opportunity is as important as the risk of failure	4.71	0.503	0.694
		if there is a courageous attempt to take a risk and fail he should not be punished	4.44	0.448	0.760
		The ability to process customer knowledge	4.26	0.433	0.775
Innovation (Y2)	KC1 KC2 KC3 IPd1 IPd2 IPd3	The ability to process competitor knowledge	3.82	0.416	0.756
		Having the market knowledge	4.62	0.412	0.811
		Introducing more innovative product	4.06	0.434	0.782
		Modify the product	4.43	0.424	0.804
		Having the capacity to design unique and useful products for customers	4.38	0.404	0.789
Business Performance (Y3)	IPd4 IPs1 IPs2 IPs3 IPs4	Launching a product that is considered new by the customer	4.07	0.431	0.856
		Improve work practices to improve productivity	3.99	0.465	0.846
		Creativity in the method of operation	4.13	0.472	0.789
		Improving the business process	3.63	0.344	0.615
		Developing management involvement	4.02	0.417	0.794
	BP1 BP2 BP3	Improve work practices to improve productivity	4.01	0.413	0.802
		The market share has increased over the last three years	3.94	0.457	0.808
		The sales have increased over the last three years	4.32	0.429	0.836
		The company's profits have increased over the last three years	5.00	0.515	0.891

which was significant. Therefore, it can be concluded that market orientation had a significant positive effect on knowledge competence. It supported *H2*. The correlation value of learning orientation with knowledge competence was ($\beta = 0.449, p < 0.000$). The value of regression coefficient was positive 0.449, and p value was ($0.000 < 0.05$), which was significant. Thus It supported *H3*, The correlation value of entrepreneurial orientation with knowledge competence was ($\beta = 0.392, p < 0.000$). The value of regression coefficient was positive 0.392, and p value was ($0.000 < 0.05$), which was significant. The results supported *H4*. The correlation value of entrepreneurial orientation with business performance was ($\beta = 0.200, p < 0.000$). The value of regression coefficient was positive 0.200, and p value was ($0.001 < 0.05$), which was significant. The results supported *H5*. The correlation value of innovation with business performance was ($\beta = 0.655, p < 0.000$). The value of regression coefficient was positive 0.655, and p value was significant ($0.000 < 0.05$).

As a consequence, it can be concluded that innovation had a significant positive effect on business performance. The results supported *H6*.

4.2 Indirect effect

Mediation criteria can be measured by multiplying the direct effect by using Sobel Test (Solimun and Fernandes, 2017). The test results of indirect effect can be presented as follows (Table III). Table III showed the test results of indirect effect of market orientation on innovation with knowledge competence mediation, where the value of indirect effect coefficient was positively significant ($\beta = 0.210, p < 0.011$). It can be concluded that market orientation indirectly had a significant positive effect on innovation through knowledge competence. The results supported *H7*. The test results of indirect effect of learning orientation on innovation with knowledge competence mediation showed that the value of indirect effect coefficient was positively significant ($\beta = 0.172, p < 0.021$). It can be concluded that learning orientation indirectly had a significant positive effect on innovation through knowledge competence. The results supported *H8*.

The test results of indirect effect of entrepreneurial orientation on innovation with knowledge competence mediation showed that the value of indirect effect coefficient was

Table II.
Direct effect of
structural model

Relationship between variable	Path coefficient	p -value	Explanation
<i>H1</i> : Market Orientation → Competence of knowledge	0.453	0.000	significant
<i>H2</i> : Learning Orientation → Competence of knowledge	0.449	0.000	significant
<i>H3</i> : Entrepreneurial Orientation → Competence of knowledge	0.392	0.000	significant
<i>H4</i> : Entrepreneurial Orientation → Business Performance	0.200	0.001	Significant
<i>H5</i> : Competence of knowledge → Innovation	0.625	0.000	significant
<i>H6</i> : Innovation → Business Performance	0.655	0.000	Significant

Table III.
Indirect effect of
structural model

Indirect effect	Original Sample (O)	p -values
Market orientation → Innovation	0,210	0,011
Learning orientation → Innovation	0,172	0,021
Entrepreneurial Orientation	0,199	0,031
Market orientation → Business performance	0,104	0,000
Learning orientation → Business performance	0,102	0,000
Entrepreneurial Orientation → Business Performance	0,193	0.000

positively significant ($\beta = 0.199, p < 0.031$). It can be concluded that entrepreneurial orientation indirectly had a significant positive effect on innovation through knowledge competence. The results supported *H9*. The test results of indirect effect of market orientation on business performance which was mediated by knowledge competence and innovation showed that the value of indirect effect coefficient was positively significant ($\beta = 0.104, p < 0.000$). So it can be concluded that knowledge competence and innovation mediated the effect of market orientation on business performance. The results supported *H10*. The test results of indirect effect of learning orientation on business performance that was mediated by knowledge competence and innovation showed that the value of indirect effect coefficient was positively significant ($\beta = 0.102, p < 0.000$). The results supported *H11*. The test results of indirect effect of entrepreneurial orientation on business performance that was mediated by knowledge competence and innovation showed that the value of indirect effect coefficient was positively significant ($\beta = 0.193, p < 0.000$). Thus, it can be concluded that knowledge competence and innovation mediated the effect of entrepreneurial orientation on business performance. The results of the study supported *H12*.

Manufacturing SMEs surveyed by the researchers showed that the level of innovation and business performance were the main reasons for developing the concepts of market orientation, learning orientation, and knowledge competence. The current literature explored the concept of knowledge competence in the western context in large enterprises, how industrial SMEs understand the concept was still less understood by people (Ozkaya *et al.*, 2015).

It can be concluded from the positive outcomes of the relationship between learning orientation and innovation that learning ability might support organizations in introducing new processes, ways and products. According to Chen *et al.* (2009), successful innovation occurs when companies commit to learning. More management organizations which encouraged learning orientation meant that there were more open-minded organizations which had information and knowledge about customers, then it meant that there were more companies that were able to offer more valuable products. Furthermore, the high level of learning orientation became an important predictor of innovation. This finding was in line with Calantone *et al.* (2002), who suggested learning orientation as an innovation antecedent. The results also supported the findings of Wolff *et al.* (2015), who argued that learning orientation created a set of knowledge values that facilitated the company to be creative in operating methods, trying out new ideas that contribute to innovation ability. The results provided further support to Calisir *et al.* (2013), which stated that learning orientation had a significant positive impact on innovation. A culture of open-mindedness allowed companies to gain new information, knowledge and insights so that new ideas that supported the innovation process emerged.

However, statistical test results indicated that market orientation had an insignificant influence on innovation. That was, market orientation in SMEs of the textile industry had little direct correlation with innovation, or innovation was less predictable by market orientation. The results of this study were inconsistent with Mahmoud's (2016) study that examined Gana's banking sector that the country's market orientation required companies to continuously observe rapidly changing customer needs and desires, and adapt to the impact of those changes by innovating. The results also did not support the study of Newman *et al.* (2016) and Zhang and Duan (2010) study, who found that market orientation allowed companies to seek, deploy and respond to market information. Information provided an opportunity for the organization to make decisions, including the decision to innovate. Market orientation that did not have a significant effect on innovation showed that

market orientation will not result in product innovation development without the ability to properly implement new product development plans. Customer orientation can lead to limited ability to develop new ideas and to release new products. Customers often fail to understand their potential needs; there was a shift in industrial technology trends and in a stable customer population. A close relationship with customers limited the innovation of a product or an uncompetitive new product, creating a routine trap that jeopardized the creativity of a new product. Similarly, competitor orientation might hamper the company's products because of increased learning to imitate. As a result, companies get nothing but redoing a competitive advantage. Inter-functional coordination can hinder product innovation by encouraging group thinking, and internal orientation, thereby stopping companies from diverse market demands (Lin *et al.*, 2012).

Furthermore, market orientation led to the positive effects of knowledge competence. If the market orientation was stronger, then the knowledge competence was better. The results supported previous research that found that market orientation had a positive and significant impact on knowledge competence (Li and Calantone, 1998). Based on RBV, customer and competitor orientations that showcased culture and market focus contributed significantly to market knowledge-related processes and capabilities. Ozkaya *et al.* (2015) found that market orientation as a culture and behavior, which understood the customers by finding market information, enhanced the mechanism of information transformation into new knowledge. Thus, a company that focused on market orientation was able to create knowledge competence.

The positive and significant effect of learning orientation on knowledge competence indicated if the learning orientation was stronger, then the knowledge competence was better. Knowledge competence can be improved by improving the learning orientation by having a learning commitment, being open minded to receive positive new things, and sharing the vision. The results of this study supported the results of research conducted by Wu and Lin (2013) which stated that learning orientation affected the effectiveness of knowledge competence. The effective knowledge competence depended on the sender's effort to share knowledge through the learning orientation. The process of learning orientation was not only done within the organization, but also by engaging in interactions outside the organization such as engaging in an early-stage interactive dialogue with customers, playing a mechanism that influenced a company's ability to ask questions and challenging old beliefs and sharpening cultures that can learn to improve the effectiveness of knowledge competence. This study supported previous research studies, such as Griese *et al.* (2012), Foong and Khoo (2015) which stated that learning orientation as the view and behavior of the importance of seeking and possessing knowledge, encouraged commitment to learning through relationships with customers and stakeholders, was capable of increasing the base of knowledge competence.

Related to the relationship of knowledge competence on innovation, the results of this study showed a significant positive effect. It meant that if the knowledge competence related to the market was higher, then the ability of innovation would be better. Organizations can improve their level of innovation by increasing the ability to translate customer information into knowledge to create innovative products, in comparison with the ability to translate competitor information into knowledge to create products and have market knowledge. The results supported previous research (De Luca and Atuahene-Gima, 2007; Hoe, 2015; Chang *et al.*, 2015). The RBV theory provided an explanation that organizational capabilities were a source of competitive advantage. Knowledge competence as a series of information acquisition processed by regularly meeting customers, interpreting and integrating information into product and service designs enabled innovation as the company's ability to

create and use knowledge resources, thus, increasing motivation to innovate, and ultimately competitive advantage (Janssen *et al.*, 2014).

The positive and significant effect of innovation on business performance meant that if the level of innovation increased, then business performance was higher. Profit growth as an indicator of business performance might increase if the dominant organization innovated the product as opposed to innovating the process. The results supported previous research (Rosenbusch *et al.*, 2010; Roach *et al.*, 2014), who suggested that innovation-oriented cultures that consisted of innovation orientation, innovation processes, and innovation inputs, created sales growth. Saunila and Ukko (2012) added innovation as the ability to transform, explore ideas and knowledge into new processes, systems, and products that drove financial and non-financial performance.

4.3 Effects of knowledge competence mediation

The results of the study found indirect effects through the role of knowledge competence in the relationship of market orientation and innovation. This means that knowledge competence acted as a full mediation between market orientation and innovation. These results were consistent with the research results of Ozkaya *et al.* (2015), who found that market orientation applied to companies in the west (USA) had a significant positive effect on innovation through knowledge competence mediation. It can be caused by a deep understanding of the needs and desires of customers; the desire to provide customer satisfaction; the habit of always listening to customers' opinions and desires; that had inadvertently shaped the knowledge of SME managers of the textile industry in creating innovation. Research on the role of knowledge competence in mediating the effect of market orientation on innovation supported previous researches (Li and Calantone, 1998; De Luca and Atuahene-Gima, 2007; Bhatnagar and Gopalaswamy, 2017).

Knowledge competence had a role as a mediator of the influence of learning orientation on innovation, meaning that knowledge competence had the capacity to increase innovation. A strong learning orientation supported knowledge competence to enhance innovation. Knowledge competence that was demonstrated by the ability to process customer knowledge, to process competitor knowledge, and have high market knowledge made SME innovations from the textile industry were increasing. The results supported the statement that learning orientation was able to explain the influence of knowledge competence on innovation, thus, learning orientation became an important predictor of knowledge competence and innovation. Supporting research in China (Wu and Lin, 2013), a strong learning orientation supported knowledge competence. The results also supported research conducted in Germany (Griese *et al.*, 2012), which showed a focus on learning values: learning commitment, shared vision that guides and direct learning, and open-mindedness, supported by human resource practices in enhancing organizational skills to gain knowledge competence. As a result, applied knowledge will drive innovation.

5. Conclusion and recommendation

5.1 Conclusion

Based on the results of descriptive and inferential analysis that has been conducted, it can be concluded that the answer to the problems and objectives that have been determined is market orientation, learning orientation and entrepreneurial orientation affect business performance through knowledge competence and innovation directly and its influence is significantly positive. but market orientation, learning orientation and entrepreneurial orientation do not directly have a significant positive effect on innovation through knowledge competence. Market orientation, learning orientation and entrepreneurship

orientation indirectly have a significant positive effect on business performance through knowledge and innovation competencies.

5.2 Recommendation

The suggestion that can be given to the next researcher is to continue the research about market orientation on business performance related to the ability of other companies, and can make a research on different area that is on different geographical, different kind of business, but still in industry SME sector. While the suggestion for SMEs and governments is aligning and integrating the pattern of company operations with the principles of market-oriented, learning orientation, competence of knowledge, and innovation, increasing the efforts to offer customer satisfaction, actively seek and share information related to competitors, strengthen the inter-functional coordination by increasing integration in all function, the Provincial Government of Bali can play a role in developing SMEs textile industry in Bali by providing training, especially managerial and utilization of information technology, and implement the ability of innovation.

5.3 Implications

The expectation of this research is the findings that can benefit businessmen in Bali in attempts to improve business innovation and performance. the market and learning orientation as the organizational culture that constitutes business behavior and knowledge competency as organizational resources can be used in the business or strategic practices to create innovation and achieve business performance.

5.3.1 Theoretical implication. This research contributes to the development of marketing management science, especially the marketing strategy by emphasizing the role of market orientation, learning orientation, and knowledge competency in improving business innovation and performance. the research findings empirically prove that business innovation and performance is constructed upon market orientation, learning orientation, and knowledge competency.

The RBV view provides a suitable theoretical framework to examine resources based on the market, which is the interaction of the components of organizational culture as a reflection of market-oriented values, norms, and faiths focused on the actual behavior to be proactive in collecting information of customers and competitors and monitoring the level of organizational commitment in providing the consumers' need to create business performance (Raju *et al.*, 2011; Roach *et al.*, 2014) through the concept of knowledge and innovation competency (Ozkaya *et al.*, 2015; Hult *et al.*, 2004). This research supports the RBV theory (Barney, 1991) which states that competency is a specific intangible resource that is influential to business competitiveness and performance.

The resource-based theory emphasizes the importance of effective resource distribution strategy to create value, maintain competitiveness, and create superior profitability. The RBV theory can explain the organization competency to be categorized as resources, such as market orientation and learning orientation which have effects on the innovation that will assist the organization in exploiting the capability to reach sustainable competitiveness (Lages *et al.*, 2009; Raju *et al.*, 2011; Srivastava *et al.*, 2016).

The role of knowledge competency can be explained by the basic of the RBV theory. It is an ability to integrate information to the knowledge of product/service design, which is a reflection of knowledge competency resources in attempts to achieve better results. The findings of this research strengthen the concept of performance (Barney, 1991) which emphasizes the importance of resources in improving business performance. The

competency as specific intangible ability/resources is related to the managerial practices including determining the company strategy, which is innovation.

The findings support the resource dependence theory which can explain the relations of learning orientation and knowledge competency. The organization needs to establish learning orientation through a relationship with the external environmental factor and internal collaboration in coping with the environmental uncertainty to improve the knowledge competency.

These research findings support the theory of reasoned action which can explain the relationship between behavioral learning orientation creating knowledge competency (Ajzen, 1991). Behavior determines attitude. Attitude and perception of the importance of learning as a reaction to the business environment changes will create intention and behavior to improve knowledge competency as a foundation that encourages business innovation and performance.

5.3.2 Practical implications. This research proves that the synergized relationship of market orientation, learning orientation and knowledge competency are admitted as the primary variable which role is important in encouraging business innovation and performance. The research findings are also expected to contribute practically in relation to the understanding of how roles can actualize business innovation and performance. Based on the findings and discussion, the recommendations to improve the textile industry SMEs innovation and performance can be elaborated as follows:

Business innovation and performance can be improved by strengthening customer orientation by improving the activities of listening to customers' opinion (OPL1). The practices of listening to the customers' opinion, discussion, and exchanges of ideas with the customers or even with potential customers through activities in social media, such as Instagram, will give information, suggestion, feedback, and occurrence of new ideas to strengthen the strategic decision-making.

The orientation of competitors can be strengthened by improving the activities of competitors information exchange (OPE3). Managers, along with the employees, can share information acquired through organization activities by participating in industrial association meetings, discussing the strategy that is used by the competitors, including their achievements and weakness, will afford the company information regarding the competitors strengths and weaknesses, and furthermore, this information is shared to the entire departments in the organization to realize customer target.

The inter-functional coordination can be implemented by re-strengthening the cooperation culture between functions (KI2). The cooperation culture in the business process enables the information exchange, resources distribution and alignment of goals to achieve the common goals in attempts to provide superior customer values.

The learning orientation of textile industry SMEs managers can be improved if strengthening the learning commitment is by encouraging a stronger learning motivation and build a relationship with business partners. The learning culture to seek for understanding, information, and new knowledge in the environment can be conducted by strengthening the intensity of relationship with the customers, distributors, suppliers and partnership/relationship with the government through training and education program organized by the government.

Sharing vision can be improved by improving the management routine to share the vision with the lower levels (BV2). For examples, the manager routinely organizes a weekly meeting with the organization members to remind them of the organization's objectives and the strategic steps must be conducted to achieve the objective of the fulfillment of customers' needs, including the learning strategy.

The open-mindedness can be implemented in textile industry SMEs by placing a high value to openness and cultivating the courage to question the pre-existing operational routines. The activities of questioning through traditional ways that have been implemented in perceiving the market information and evaluating the operational routines critically, improving the openness culture because the organization members typically are the source of new ideas, improving training, emphasizing the culture of correcting each other, and the tolerance of failure that will increase the open-mindedness as a process of learning to replace old knowledge and add the basis of pre-existing knowledge.

The textile industry SMEs' knowledge competency can be improved by improving the ownership of market knowledge. The implementation of market knowledge strengthening is implemented by textile industry SMEs by seeking the market information, interpreting, and transforming the information into knowledge, then the knowledge is used to make a strategic decision related to the innovation.

Innovation can be improved by strengthening product innovation by launching new products. Following the development of technology and market, which has grown faster and moved dynamically, forces the company to actively launch products considered new by the customers and in attempts to constantly observe the competitive environment, causing the company to continuously adapt to the changes of consumer preference through new products. The new products make regular customers stay amidst high business competition.

The innovation process of the textile industry SMEs can be improved if the SMEs heighten the work practices improvement to encourage productivity. It can be implemented by evaluating the pre-existing work practices and revising the practices or process steps that are not efficient in terms of cost and time.

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